

University of Mississippi eGrove

Haskins and Sells Publications

Deloitte Collection

1918

Using your head

Anonymous

Follow this and additional works at: https://egrove.olemiss.edu/dl_hs



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

Haskins & Sells Bulletin, Vol. 01, no. 03 (1918 May 15), p. 21-22

This Article is brought to you for free and open access by the Deloitte Collection at eGrove. It has been accepted for inclusion in Haskins and Sells Publications by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.

HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

NEW YORK
CHICAGO
DETROIT
ST. LOUIS
CLEVELAND
BALTIMORE
PITTSBURGH

BULLETIN

SAN FRANCISCO
LOS ANGELES
SEATTLE
DENVER
ATLANTA
WATERTOWN
LONDON

NEW YORK, MAY 15, 1918

Using Your Head

ANY one who writes well can make good looking working papers. Some of the best accountants in the profession make the worst looking working papers. Better a poorly written sheet, so long as it is readable, which conveys information of value, than a sheet of copper-plate which is meaningless.

Making good working papers is an art. The ideal papers combine information and accuracy with neatness and orderliness of presentation. They tell their story to the stranger as quickly as to one who is familiar with them. They bear the name of the person who made them.

Success in the preparation of papers is necessarily founded on the proper concept as to their purpose. Those which might be needed for testimony in connection with litigation would naturally go into greater detail than in the case of an ordinary audit. One account may require exhaustive analysis. Another may need only passing reflection.

"Stringing out the work" and "pushing the pencil" are traditional phrases in accounting work. They are not synonymous. They are prompted by different motives. The former is intentionally dishonest. The latter is the result of ignorance or thoughtlessness. The result produced in either case is the same.

Unnecessary work, no matter what the cause, may have a number of undesirable consequences. It may increase the cost of our services beyond reasonable proportions. It may prevent the doing properly of things which are really important. It may make the cost of the engagement so high as to be unprofitable. The first two are unfair to the client. The third is not good business.

The man who spends ten hours filling up sheet after sheet of analysis paper with figures taken from a subsidiary ledger must give a good reason for it. If he uses this method of verifying a liability when a few independent calculations would serve the same purpose he is, to put it mildly, inefficient.

Following last year's working papers has been the undoing of many a man. The papers are supplied with the idea that they will serve as a means of continuity between the present and the previous work. At times they may be used as a general guide. Their wise use in this respect is conducive to uniformity and is pleasing to the report department. They should never be followed blindly and without thought.

Intelligent originality is a quality much to be desired. Thoughtfulness is incumbent upon every accountant who would succeed. Mr. Haskins was fond of saying that the highest function of an accountant was to

"think right." The man who had the courage to spend two days thinking out the method and plan for a long piece of work was rewarded by having the results stand the acid test of use in litigation and obtain a large judgment for the client.

Good work is the product of careful thought. Nothing is ever in such a hurry that opportunity for thought may not be had. The time required for careful and thoughtful work may be explained—mistakes and stupidity never.

Before you dash off working papers consider the matter of what you are going to do with them.

The "Canfield" Problem

THERE appeared in the April number of THE BULLETIN the following problem: "John Brockton offers to the Canfield Company in consideration of all the capital stock of the latter (\$300,000) his option on the physical property and good-will of a going concern, with a fairly well known trade-name. It is further provided that the property shall be taken subject to a mortgage of \$100,000.

"The offer is accepted. The stock is issued to Brockton. The property is taken subject to the mortgage. Brockton donates the stock to the company to be sold for working capital. The stock is sold at \$25 a share. The directors of the Canfield Company fix the value of the physical property at \$100,000.

"You are asked to open the books for the Canfield Company."

The facts as set forth in the problem were taken from an actual case. They are in some respects unique. The statement in the problem relative to the option is true to the facts in the case, but what really happened

was that Brockton transferred the property which his option gave him the privilege of acquiring. It is somewhat unusual to have the property taken subject to a mortgage and then have the directors fix the value of the property at an amount equal to the amount of the mortgage, whereas the par value of the capital stock issued for the property was considerably in excess of such amount.

Whether or not the Canfield Company was ill-advised legally in transacting business of this importance without duly qualified directors is aside from the question which confronts us as accountants. The facts are as stated, namely, that all the stock was issued for the property, etc. None was, until later, issued to directors to enable them to qualify as such.

The Canfield Company parted with instruments the face value of which was \$400,000. The mortgage of \$100,000 was a distinct liability. The capital stock had a par value of \$300,000. In exchange the company received property, tangible and intangible, which must of necessity be equal in amount to the mortgage and capital stock. If the directors fixed the value of the physical property at \$100,000, the balance of \$300,000 must represent the trade-name and good-will.

The entries covering the transactions as they appear in the problem are as follows:

| | | |
|--|-----------|-----------|
| Plant and property... | \$100,000 | |
| Trade-name and good-will | 300,000 | |
| Mortgage payable | | \$100,000 |
| Capital stock..... | | 300,000 |
| To record the purchase of the physical property, good-will and trade-name of the Blank Company acquired by option through John Brockton in | | |